

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK PROJECT

**EQUITY RESEARCH:
PROSEGUR CASH**

VASCO DA MOTTA CAPITÃO MARTINS DE ALMEIDA

OCTOBER 2019

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**SUPERVISOR:
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Abstract

With objective of finishing the Master in Finance, here follow the Master's Final Work (MFW) according to the model of Equity Research. The chosen company was the Prosegur Cash SA were the major business is the transportation of high valuable goods. This was work was done taking into consideration the recommendations given by the CFA Institute.

The choice of Prosegur Cash as the company to analyze in this masters final work comes from an interest that I have in understand how this industry of transportation of high valuable goods works. Among the companies that operate in this industry, I choose Prosegur Cash especially due to the fact of being the most familiar to me, but also because it come to my attention the fact that they launched their IPO recently – in 2017 – and knowing that, made me pursue the challenge of studying this company.

The present report contemplates the available information until 11th of September 2019, any other information released after that was not taken into consideration to the elaboration of this report.

The target price was calculated by one absolute method – Discounted Cash Flows (DCF) – and supplemented by a relative valuation method – Multiples Approach.

According to the analysis done, it is expected that by the end of 2019, the target price is 2.14€, which represents a upside potential of 10.4% compared to the current price of 1.934€ at 31th December 2018.

The major risks that exposes Prosegur Cash target price are the possibility of suffering any kind of robbery, cyber-attacks, and reaction to new markets.

Our final recommendation in to BUY.

JEL classification: G10 ; G32; G34;

Keywords: Equity Research; Valuation; Mergers & Acquisitions;

Resumo

Com o objectivo de finalizar o Mestrado em Finanças, segue-se a elaboração do trabalho final de mestrado (TFM) com o modelo presente Equity Research sobre a empresa de transporte de valores Prosegur Cash SA segundo as recomendações do CFA Institute.

A escolha da Prosegur Cash como empresa para elaboração desta análise provém de uma curiosidade que tinha em perceber como é que a indústria de transporte de valores se posiciona no mercado e de como operam. Dentro do leque de empresas que existem nesta indústria, a escolha pela Prosegur Cash dá-se não só por ser a empresa desta indústria que me é mais familiar, mas especialmente por saber que foi uma empresa que lançou a OPA apenas em 2017, e como tal, o desafio de estudar esta empresa despertou a minha atenção.

O presente relatório contempla informação disponibilizada até 11 de Setembro de 2019, qualquer informação que tenha sido partilhada posteriormente não foi contabilizada para elaboração desta análise.

O preço alvo foi calculado através de um método absoluto - Fluxos de Caixa Atualizados (DCF) - e complementado pelo método de avaliação relativa – Múltiplos. De acordo com a análise feita é expectável que no final de 2019, o preço-alvo seja de 2.14€, o que representa uma possível valorização de 10.4% face ao preço corrente 1.934€ a 31 de dezembro de 2018.

Os principais riscos que expõe o preço-alvo a ter em conta são a possibilidade de acontecer algum tipo de roubo, ataques eletrónicos, e a reação dos novos mercados.

Concluindo assim que a nossa recomendação final para a Prosegur Cash SA seja COMPRAR.

Classificação JEL: G10 ; G32; G34;

Palavras-Chave: Equity Research; Avaliação de Empresas; Fusões e Aquisições; Prosegur Cash SA; CASH; Prosegur; Security you can trust; Carros blindados; Indústria de transporte de bens valiosos.

Acknowledgements

This project represents the end of an era. Since I was little that I pointed to at least became a master. Through my bachelor years, I understand that in nowadays this is more and more important to learn and have as much background and knowledge to apply in the real work life as we could.

It was the toughest three years of my life. Reconciling the personal life, work and to study was very tough.

During this last year, where this master final work is temporally located, there were several changes in my life, especially the fact that I accepted a new work challenge which make things harder because I needed to be focused learning new things, but at the same time I needed to arrive home a study to this equity research.

During this journey I met some people that had very importance on my path:

To Ricardo, that was an amazing partner, that started this journey with me, and helped me a lot – even when I was thinking about quitting. Despite of the fact that he didn't continued the path with me until the end, I'm very grateful for his friendship.

To Gonçalo that I met during these years and was a pleasant surprise. A good friend and a good partner.

To Filipa, that helped me so much with all my doubts. She was always available for me, I have no words to thank her.

To Mafalda, that as an expert on this area, tried to help me as far as she could, managing her busy work life, and the fact she work abroad, always tried to get some time to clarify my doubts. Thank you.

To Margarida, perhaps she doesn't know but very recently she gave me one speech, a harsh one, that made me not give up and put all my effort to finish this work until the deadline. I'm very grateful for that and for all the support she gave me after that.

To my supervisor, that despite of my delays in deliveries, always say something positive and encouraged me.

Last but not least, I want to thank my mother, without her support I was not able to be here, finishing this master in finance.

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CASH: Security you can trust

(YE2020 Price Target of € 2.14 (+10.4%); recommendation is to Buy)

1. Research Snapshot

Based on the analysis done on Prosegur Cash SA, using the discount cash flow method, our recommendation is to BUY with a price target of 2.14€, that represents a upside potential of 10.4%, taking into consideration that this represents high risk. Multiples relative valuation support our evaluation by reaching an average potential of 103.4% comparing to the latest closing price.

CASH was established in March of 2017 and comes from a multinational company that has operations all over the World. It is aligned and driven to expand their activities to all continents and consolidate the ones that are already in place. Prosegur Cash takes advantage to already have name on the market, and most important, client's trust. The company has been able to introduce new products that already have impact in company's total sales – in 2017 it represented 8.7% and in 2018 increased to 11.2%.

The Ibero-America are the company's main responsible for the revenues since it represents 67% of total revenue – 4% less weight on than 2017; there was an increase in Europe business activities. Knowing the fact, the in most of the Ibero-America countries there is a lot of transaction still made through cash, it sustains the need of services that can assure that this way of transaction is available in every ATM or bank – Cash in Transit and cash management services are the major responsables for the company's total revenue.

Prosegur Cash is driven to accelerate its growth by investing in outsourcing, in end-to-end management of cashpoints, to reach a more efficient, scalable and profitable business.

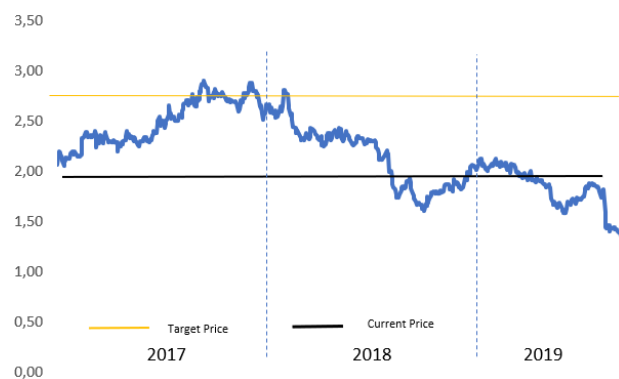


Figure 2 - Historical Share Price

Source: Yahoo Finance

Table 1 - Analyst's Risk Assessment

Low	Medium	High
Our risk assessment reflects estimates Medium Risk for CASH		

Table 2 - Market Profile

Key Information	
Previous Close	1.36 €
Open	1.34 €
Volume	345,607.00
Average Volume	849,109.00
52-Week High	2.14 €
52-Week Low	1.32 €
Shares Outstanding	1500.00

Table 3 - Valuation Outputs

Valuation	2019F Target
DCF	2.14 €
Multiples Avg.	3.93 €
Current Price	1.93 €

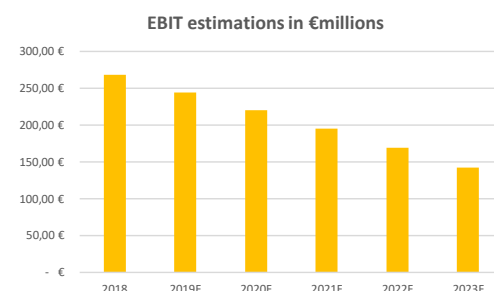


Figure 1 - EBIT estimation evolution

2. Business Description

Business Description

Prosegur Cash, located in Madrid, Spain, member of Madrid Stock Exchange, is a leading world company in cash in transit (CIT) and on the outsourcing of services for financial institutions, retail companies, government entities, central bank and other businesses. Prosegur Cash processes every year over 550 000 million euros in more than 575 logistics facilities in 23 different countries, offering job to over 55 000 people, and having a fleet of 10 000 armored vehicles.

Prosegur Cash offers different services such as Cash In Transit (CIT) and Outsourcing of high value services. The outsourcing service mainly include services like transit, storage, custody and special protection to these high value items – this business is principally focused on the banking and distribution sectors (see Figure 3 and Figure 4).

The company is a subsidiary controlled by Prosegur Compañía de Seguridad, S.A that owns 72.5% of the share capital – either directly or indirectly through out other subsidiaries entities. Prosegur Cash was founded and went public on 17th of March 2017.

The company is currently present in 23 countries divided in three different areas: Europe (France, Spain, Portugal, Germany, Luxembourg) AOA (India, South Africa, Singapore, Philippines Australia) and Ibero-America (Mexico, Colombia, Peru, Brazil, Paraguay, Uruguay, Peru, Honduras, Guatemala, Costa Rica, Nicaragua, El Salvador, Argentina and Chile) – see Figure 5.

In the past year, Prosegur Cash's revenue were down to EUR 1731.61m, being the region of Ibero-America region the one that more contributed to this – 67% (€1148.12m).

Medium-term Strategy

The company aims to improve their business by implementing a strategy for the next years is based is called ACT and is based in three pillars: **A**gility, **C**onsolidation and **T**ransformation. This is a triennial strategic plan 2018-2020. The company is committed to the sale of new products, focusing on the automation offer, as well is committed to make the company more efficient, to continue their expansion while at the same time to consolidate their expansion on the countries that they already are present, and to create value by using transformation as a diversifier tool to present a bigger value to the market .

Agility

The company is aiming to be more efficient, by implementing certain methods and tools that will help the management team having all the data they need to easier take correct decisions. This process is being done with the help of digital transformation, in order to achieve this agility and standardization of processes.

Consolidation

The need to keep expanding to other markets while being sustainable on those that are already working on. It is mandatory for the company that the

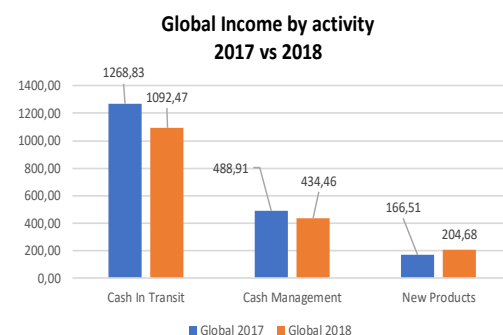


Figure 3 - Global Income per activity

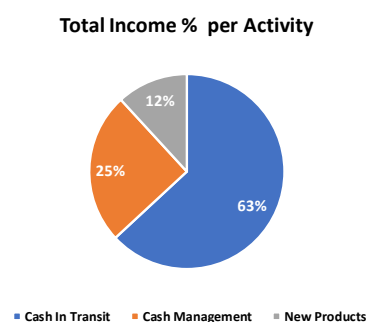


Figure 4 - Income per Activity



Figure 5 - Prosegur Cash operation through the World

market position though out the different countries is strengthen, and the leadership maintained.

Transformation

The continuing investment on the diversification and differentiation is one of the company's priorities. There company is set to develop a customer success policy by listening to what are the customer's needs, in order to transform the business by developing products and services that corresponds to what customers want.

Line of Business

The presence on the market is defined by three major business lines that are Logistics, Cash Management and the New Products.

Logistics

CASH offers local and international transit services by land, sea and air, of cash or any other valuable item. These services include all the process of collection, transit, custody, deposit and delivery of the high value goods. This represented a total of 63.1% (€1092.47m) of the company's results, being the territory of Ibero-America that most contributed for reach this level.

Cash Management

The cash management services cover the counting and all the processes conditioning, including the packaging, the delivery of the bills and coins and the cashpoints (ATM's) loading services. Cash management had an influence of 25.1% (€434.46m) on the company's total results of 2018.

New Products

The company believes that stop is not the right way to tackle the market, especially because the times of today, that there are new players entering in the market with new ideas and new offers, it's important to keep developing and presenting to the market new solutions, and with that, Prosegur Cash invests on this. The company has been implementing new products on the market such as the Automation of Payments in Shops using self-service cash machines; Has being developing devices for cash entry, among other products. This sector reflected 11.8% (€204.68m) of the company's results, being the Ibero-America area, which contributed the most.

Shareholder Structure

As of December of 2018, Prosegur Cash the share capital is 30 million Euros, represented by 1,500,000,000 outstanding shares with a nominal value of 0.02 euros, enjoying the same voting and dividend rights, spread, and there aren't no legal restrictions on exercising the voting rights or on the acquisition or transfer of shares in the share capital.

The shareholder structure is mainly defined by private investors, knowing that 72,5% of the capital is owned, indirectly or directly by Prosegur Compañía e Seguridad – through out other holding entity, Prosegur Assets Management - while the remaining 27,5% is floating on the capital market – including the 6.645% of Fidelity Management & Research, known as FMR, the 4.992% of Oppenheimer and 3.806% of Fidelity Investment Trust. This solid shareholder structure enables Prosegur Cash to develop and proceed their project and achieve the defined objectives (see Figure 6).

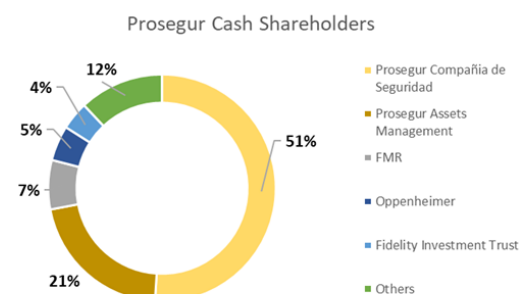


Figure 6 - Shareholder Structure

On December of 2018, the board of directors approved an interim dividend of 118 050 EUR, that will be paid in four equal tranches starting on December of 2018 and pursuing in March, June and September of 2019. The company's strategy is to maintain the good expansion pace and intends to increase the increase of dividends annually.

Share Price Performance

Prosegur Cash became officially listed in Madrid Stock Exchange on 17th March of 2017. The IPO had a final offer price of 2 euros per share with a placement of 375 million shares on the market, which corresponds to 27,5% of the company's share capital, leading to a market capitalization of EUR 3.09 bn.

At the end of 2017, the first year – not entirely - Prosegur Cash aroused great interest on investors, since its shares were being subscribed three times over. On 31th of December 2017, Prosegur Cash had a closing price of EUR 2.68, that reflected up 34% from the IPO launched in March of the same year.

In contrary, in 2018, Prosegur Cash performance was completely adversely affected by the hostile economic environment compared to the previous year, mostly due to the devaluation in Ibero-America currencies and adding the slowdown of the growth in Brazil and Argentina – two of the major countries where Prosegur Cash is positioned. One of the most relevant initiatives to revert this loss of value was the raising of the interest rates that accelerated the return of funds to continuing investing in Ibero-America area – this led to a push on the exchange rates in various countries. Both US Dollar and Euro reflected this measure and were appreciated significantly – in contrary Brazilian real and Argentinian peso were the two currencies that were badly hit by this policy – both Brazil and Argentina were super affected by the hyperinflation economy that led to a negative impact on the recovery of the economy. Prosegur Cash was considerable penalized by the currency devaluation.

On December of 2018, Prosegur Cash had closing price of EUR 1.93, that represents less than 28 percent of the previous year.

3. Management and Corporate Governance

Prosegur Cash, SA follows the recommendations that implicit on the Unified Code of Good Governance for listed companies. The company does the best effort to keep committed to success and consolidate their business in all strands.

CASH is settled on five core pillars - Independence, Transparency, Protection of Minority Shareholders, Effectiveness and Efficiency, and Integrity. The Corporate Governance Policy is implemented since January 31th of 2018.

The company also works to promote social interest, to apply best practices, to ensure good habits, comply with the current legislation, to communicate with shareholders, and to encourage the best information diffusion of the participation of their shareholders. To implement and maintain the use of best practices, Prosegur implemented the Code of Ethics and Conduct, the Internal Regulations on Conduct in Securities Markets, a Framework Relationship Agreement between Prosegur Cash and Prosegur Compañía de Seguridad, a Director of Selection and Remuneration Policy, a Corporate Responsibility Policy, Investor Communication Policy and a Dividend Policy.

Board Roles

The Board of Directors is divided in three main groups: The Audit Committee, The Appointments and Remuneration Committee, and by the third group that is composed by the Chairman, the Chief Executive Officer (CEO) and by Executives.

The Audit Committee has the responsibility to schedule the appointment of the auditor, reviews the company financial statements; ensures that legal requirements are being followed. The Audit Committee also have the task of checking the Corporate Responsibility Policy; coordinate the process of reporting non-financial and diversity information; and supervise the strategy for communication.

The composition of the Board of Directors and Management team is defined by the Appointments and Remuneration Committee.

The Board of Directors have scheduled thirteen meetings per year, and the Appointments and Remuneration Committee have one.

Board Members

The Board of Directors was formed on 31th of December of 2018. The board is formed by nine members, where seven of them are non-executive - three are proprietary and four must be independent - and the remain two, are executives.

The company follows the standards that most of international companies have in terms of Corporate Governance, which turns into a separation of responsibilities of Executive Chairman and Chief Executive Officer.

Chairman

Christian Gut Revoredo is the Executive Chairman of the Board of Directors since its formation. Mr. Revoredo has a degree in Economics and Business Administration, and an MBA from INSEAD.

Mr. Revoredo was General Manager of Prosegur Spain until 2007 since in 2008 he become CEO. He is on the board since 1997. Beyond all these responsibilities, Mr. Revoredo is also a Member of the Board of Trustees of Prosegur Foundation.

CEO

José António Lasanta Luri is the actual Chief Executive Officer. José António has a degree in Business and Administration from the Universidad Pontificia Comillas. Joined Prosegur in 2004 where he worked as a strategy manager, corporate development manager, manager for APAC, manager of the technology business and before he assumed the CEO role, he was also CFO of the company.

4. Industry Overview and Competitive Positioning

European Economic Outlook

In the second half of 2018, the growth of the economy in EU slowed principal due to the fact of growth in the global economy and trade weakened that were triggered by almost commercial war – a lot of commercial/trade tension occurred between the United States and China. This tension around the manufacturing sector extended until the beginning of 2019. Knowing that the EURO zone is highly dependent on external demand and adding the fact that there are disruptions in the car manufacturing sector, social tensions, and policy uncertainty – especially United Kingdom with BREXIT. The growth of EURO area last year was 1.9%, while this year of 2019 is forecasted to grow by 1.2% and to reach 1.5% in 2020. All the member states are expecting to grow over this next two years (see Figure 7).

The employment is growing in a slowly pace combined with rising wages, a few inflation and supportive fiscal measures in some countries.

Ibero-America and AOA Economic Outlook

The other two major regions of action in the case of Prosegur Cash take place in Ibero-America and in AOA (Asia, Oceania, Africa).

The Ibero-America has been growing in a fast-paced rhythm throughout the last decade. Country members like Peru, Paraguay, Guatemala and Honduras are the countries which mostly have contributed for the increase of the Latin America region, reaching numbers of GDP growth rate of 3.9 (for Peru and Paraguay), 3.5 and 3.4 for Guatemala and Honduras respectively. In contrary, countries such as Nicaragua and Argentina are suffering a worst period in terms of growth (Nicaragua registered -5 and Argentina reached -1.2 in term of GDP growth in last year). Overall the Ibero-America had a GDP growth rate of 1.92 from last year – all countries on this area are registering a huge development throughout the last years but are still very influenced by the fluctuations of US dollar currency (any kind of instability – economic or political – that happens on United States, will affect immediately those countries – Knowing that during the last year, there was the commercial disputes between China and United States, it's normal justified that the Ibero-America region was automatically affected.

AOA region are composed by two countries that could be considered as “giants”. The population density of India, with thousands of labor hand, has been convincing more and more industries to establish their factories there, which is increasing the work offer throughout the last years – this turn into boom on country's development which translates to the surplus GDP growth rate of 7.3 from last year (2018). Another country where Prosegur Cash has business is Australia. Australia itself represent almost an entire continent, which automatically send us to the quantity of opportunity of development that could happen on this land. The country with a size of a continent, has being growing at a considerable good pace, reaching the 2.1 GDP growth rate, by exploring more and more of what land has to offer – Australia only have more 3 million habitants than Portugal and it's several times bigger than Portugal. Overall AOA despite the fact the currencies of India (Rupees), Singapore or Australia aren't too strong comparing to the Euro and US Dollar,

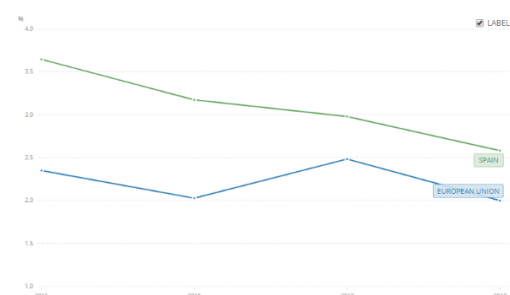


Figure 7 - GDP Growth Spain vs Europe
Source: World Bank Group

this region is now emerging in a fast-pace, especially due to countries development like India, Singapore and Australia.

Spain Economic Outlook

Spain economy is expected to grow in a moderating pace during the year of 2019.

Private consumption and investment are expected to slow down. The saving rate will turn over the historical lowest rate that occurred in 2018 – it's projected to start increasing through 2019 and 2020. The net exports will improve gradually in 2019 and reach neutral in 2020.

Overall, the real GDP growth rate is expected as 2.3% and considered (see Figure 8).

Industry Overview

The high value transportation of goods has been increasing through these years, especially in countries where there is a considerable number of heists but not only.

This industry has been able to offer all types of clients – from banks to simple individuals – that want to transport their high value goods from a place to another. It's been assumed that the most income that this industry has, comes from the institutional clients (like banks) which need to guarantee that everyone have their money available in every ATM's, or in their bank subsidiaries.

Year after year, there is more money circulating and the companies that work in this industry are the one that everyone trusts to transport their high value belongings.

On today's picture, this industry is dominated by four different companies – Loomis, Prosegur Cash, Brink's Company and G4S – and all them are trying to continue to pursue their expansion, specially to the region of LATAM which is a huge potential but still isn't totally exploited (the crime rates as well as the number of robberies are very high – it's necessary to have extra caution and procedures so any transportation of high values of goods could happen within normal safety conditions).

Peers Group

G4S

G4S PLC, formerly known as "Group 4 Securicor" is a multinational security services company, from London, Great Britain, and is primarily listed in the London Stock Exchange.

The company has origin in 2004 after a merge from an English company called "Securicor" with a Danish company – that operated in the same business – called "Group 4 Falck". G4s it was initially found on 1901, in Copenhagen by Marius Hogrefe.

G4S positions itself in the market by focusing on three major points: Security Solutions; Cash Solutions; Cash and Justice Services – in other words, they offer the supply of security personnel, monitoring equipment, cash management, and they also assure secure prisoner transportation. In terms of comparing itself to the other players in the market, G4S is the one that goes in the first place since it is the largest company of the world when we compare revenues from all competitors.

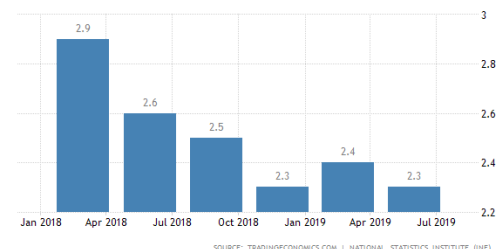


Figure 8 - Spain GDP Annual Growth Rate 1Year
Source: US Institute National Statistics

The company has operations in more than 90 countries all over the world, offering job to more than 570 000 people, making G4S the world's third-largest private employer – it is the number one employer in Europe and Africa.

G4S reached last year the mark of 7.3 bn pounds in revenues and achieved a total of 460 million pounds of adjusted PBITA (adjusted profit before interest, tax and amortization), that reflected a deceleration of 6.5% from 2017 to 2018. Security operations represented 85% of the business – 78% on Security Solutions and 7% Care & Justice Services, while Cash Solutions represents the remain 15% - Cash management, Bank process automation.

As well positioned, the company expects to grow between 4% and 6% per annum from 2017 until 2027, by continuing to offer innovative industry leading solutions and taking advantage of their position on more than 90 countries.

The company has been following the same path as Prosegur Cash as they have created a Global Cash Solutions division, with all the resources working in an independent way and aiming to separate this division from the rest of the company and create a new one, like Prosegur Compañía de Seguridad did while creating Prosegur Cash – already approved by the board. Since this announcement that the company has been receiving proposals to acquire the Cash Solutions area, even though that G4S is not thinking to sell, because they are already implementing process to leverage their positioning on the market by implementing better methods to properly deliver Cash technology services; efficient technology management systems and bank process automation. The company is aiming to achieve the Top2 of 41 out of 44 countries that they have already position. The technology that the company is presenting to the market offers significant savings and valuable higher margin to G4S.

In 2018, the Cash Solutions services represented 15% of the group totals revenue in a universe of 7.3 bn pounds.

Brink's Company

The Brink's Company is an American private security company, from Richmond - Virginia, US.

Brink's offers solutions like cash-in-transit, ATM services, cash management services, vault outsourcing, money processing, and international transportation of valuables. The major client profiles are the financial institutions, retailers and have the trust to provide services to government agencies. Their activity is present in more than 100 countries, employs 62 400 people all around the world, have more than 1200 facilities and a fleet of 13 500 vehicles.

Brink's business has three lines of business: the core services, the high value services and the other services.

The **CORE SERVICES** that represents 49% of 2018 total revenues, are the Cash in Transit (CIT) and the ATM services, combined, these two services worth 1.7 bn US Dollars – more 6% than in 2017.

The **HIGH VALUE SERVICES** represent 45% of 2018 total revenues. On this group of services there are inserted the global services and the cash management services.

The company presented last year of 2018, 419.3 Million US dollars. Brink's had a huge growth from 2017 to 2018 justified by the increasing of the revenues in 17%.

Brink's strategy for the next few years is based on accelerate the profit growth, to close the gap of operational excellence and exceed it, and to introduce differentiated services to the market by growing high-value services.

Loomis

Loomis, formerly known as Loomis, Fargo & Co formed in 1997 is a cash handling company. Loomis is publicly traded in Nasdaq. Loomis offers a consist cash handling and international valuables logistics. The major customers of the company are on the banking sector and on the retail. Their line of business is Cash in Transit (CIT) – that represented in last year of 2018 62% of the total revenues, Cash Management Services (CMS) – represented 31% of 2018 total revenues, Deposits – 2% of 2018 total revenues - and International Services – 5% of 2018 total revenues.

Loomis has defined their triennial plan for 2018-2021 that is based in five pillars: Accelerate the core business; Launch New Services; Grow in the value chain; Expand the geographic and technology position; and Improve the way of working.

The company aims to **ACCELERATE CORE BUSINESS** and **LAUNCH NEW SERVICES** by willing to outsource one of the key drivers of Loomis market – the Cash in Transit – and with that, they will be able to enter in new markets and reach more customers. At the same time, Loomis wants to keep investing on new solutions to present to the market, like the SafePoint (deposit solution). These two strategic measures are already supported by the two centers of excellence that Loomis built it.

SWOT Analysis

Strengths

BRAND WITH WORLD RECOGNITION: Being a subsidiary of Prosegur Compañía de Seguridad, a company with presence in more than 25 countries that has been building the trust to all customers in terms of security and all that is related to that, gives a good leverage to Prosegur Cash present their self to the market. Knowing that in this market, trust is one of the key elements to reach the success – since the business core is deal with money and valuable goods and assets – Prosegur Cash assume this as a strength, that pretends to continue to expand (please see Figure 9).

GOOD REPUTATION: This factor comes along with the brand recognition but as well as their history in factors that can shake the customers trust – like robberies. Prosegur Cash is a company born in 2017, but in what matters, to the market it is not a company as recent as it is since they assumed the brand from the “main” company and, therefore, its reputation. Having a good reputation on this market is one of the important pieces to have more value. CASH pursues to encourage new customers with the reputation “card”.

PRESENCE IN MARKETS WHERE CASH IS STILL A FUNDAMENTAL PIECE OF ECONOMY: In every country in the world, cash is still a very important way of making transactions, but there are countries where there is more affluence of cash than other countries. For example, LATAM countries are countries characterized for having a residual amount of people that have bank

Internal Factors	
Strengths	Weaknesses
Brand World Recognition;	Reputation Sensitive;
Good Reputation;	Failures on incidents on IT structure;
Presence in markets where cash has a lot of transactions	Strikes
External Factors	
Opportunities	Threats
Explore and expand their presence on Asia markets;	Robberies;
Expand the presence in Europe	Data theft

Figure 9 - SWOT Analysis
Source: Personal Analysis

accounts and that are able to make their money transactions through the use of cards or bank checks. In those type of countries – where Prosegur Cash has a considerable amount of business – it is essential and very required that these kinds of services exist – both logistics and cash management. As CASH is well positioned in countries where cash is still the more used way to make transactions, it is considered a strength.

Weaknesses

REPUTATION SENSITIVE: Businesses like the one that Prosegur Cash has, the brand reputation is directly related to the value that a company can achieve. If a company that works in this industry suffers for example a robbery, like Prosegur Cash suffered one month after their constitution, in Ciudad del Este, Paraguay, it is normal that it could be affected in terms of revenue – loss of customers or not gaining new customers because will prefer company that gave them more feel of trust.

FAILURES OR INCIDENTS ON IT STRUCTURE: Being Prosegur Cash a company that works with valuable goods and cash, and adding the fact that is a company which goes along with the digital transformation movement, it is considered that a failure on their IT structures could be a huge issue due to the data storage about safe locations, money quantities, trajectories, client information, etc. Taking into consideration that nowadays there are more and more cyber-attacks, it is totally conceivable that this is considered as weakness.

STRIKES: CASH is a fundamental piece of the bank's mechanism. Prosegur Cash's customers totally trust on this service to assure to their customers cash in everywhere. CASH is responsible for the refill of thousands of ATM's, a strike will several conditionate the operations of CASH customers and that will have a several impact in a short term for the company by having loss of customers.

Opportunities

EXPLORE AND EXPAND PRESENCE ON ASIA MARKETS AS WELL AS IN EUROPE: Asia is one giant market with a lot of potential since it contains countries already developed and a considerable amount of countries that are still in development – despite of the fact that entering on these market is difficult because of countries like China or Japan that already have their solutions and companies that also offer the same value, it is definitely an opportunity for CASH grow and gather more value.

In Europe, CASH has already presence in countries like Portugal, Spain, France and Germany. Being able to expand their action to the rest of the continent, it will sure be an excellent way to obtain more value to the company.

Threats

ROBBERIES: The worst thing that could happen to a company in this industry is to be robbed. This not only could affect their reputation with all the side-effects that has, but also the simple fact of the loss cash or the valuable goods that the company is responsible for – Taking for example that a company suffers a robbery in an object that is carrying for a certain customer, it will have to give them a considerable compensation for that certain object.

DATA THEFT: Be hacked could expose the company totally and even worst, expose the client's data. This would have a massive impact on the company's image and on their day-to-day operations.

5 Forces of Porter

Below are presented the analysis of the five forces of Porter (see Figure 10)

Bargaining Power of Suppliers Low/Moderate:

Suppliers players don't have too much influence/power in how to affect the performance of the company activities. The only two factors that can affect the CASH activity could be the increase of the price of gas – that could lead to more operational costs – and the increase of the price of armored trucks by the manufacturers – even though that nowadays several automobile manufacturers (like Cadillac, Mercedes, Toyota,...) already invest on the manufacturing of these type of vehicles, which gives the opportunity for companies like Prosegur Cash a diverse offer and also considering that the company don't have to buy it constantly every years.

Bargaining Power of Customer High/Very High

CASH offers to the market a certain service that has a defined target – special financial institutions – this means that their offer it isn't something that everyone can afford, and with that, the company is very dependent to the purchase of power of their customers that usually only banks, financial institutions and companies in general are able to afford. Taking into consideration the mentioned aspects and adding the fact that in this industry there isn't a loyalty to the brand – there are several players in the market, and customers seek for the best option vs price, the switching costs are low and the bargaining power of customers is quite significant

Threats of Substitutes Low:

There aren't any different ways to make cash reach its destination if not using armored trucks to do that – for example, it isn't possible to transport cash and do the logistics implicit on the process of refill the ATM's by train or by plain. They way of Prosegur Cash operates, is the one that fits to the needs of their customers, so it would be very hard to find better ways to do it.

Barriers to Entry Low/Moderate

It isn't difficult to start a business on this industry despite the fact of gaining position on the market. For a company to enter in this market, it has to have an initial investment – considerable – to acquire or loaning armored trucks so they can be able to do their work; It's also difficult to gain trust of financial institutions, but there isn't, for example, any bureaucratic impediment to enter in this industry.

Rivalry Competition Very High

The security and cash logistics industry has a considerable number of players – beyond the peers that we studied, there are more competitors on the market – and that makes this industry very competitive since it is already well developed. It is very difficult for a player to distinguish from the other competitors. Companies need constantly to seek to offer the better solutions and keep up with this World in transformation so they can guarantee the best offer to the customer.

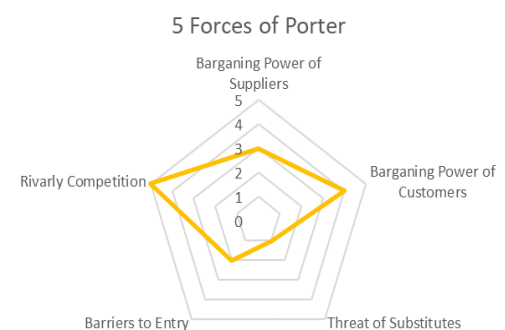


Figure 10 - 5 Forces of Porter
Source: Personal Analysis

5. Investment Summary

Using DCF, reached a price target of 2.14€ and a upside potential of 10.4% from 1.934€ on 31th of December 2018, our recommendation is to BUY. By using another evaluation method, the Multiples evaluation, the price target is 3.93€ with a upside potential of 103.38%, our recommendation is to BUY.

Our recommendation is based on the following key drivers:

Entering new Markets

Prosegur Cash is aiming to consolidate their position – as it was announced on their strategic plan for the following three years 2018-2021 – but also planning to expand to new markets.

Expanding the activity to a new country is always a risk since their direct competitors are already very well positioned in developed countries – especially in regions like US and Europe. The company is aiming to establish partnerships in new countries – through outsourcing – and this can be something that can exposure their name on the market if these partners doesn't fulfill properly the standards that Prosegur Cash commits to offer to the client.

Recent Company and Company's Growth

The fact the company is new – regardless the fact that is subsidiary of a multinational company with business activities all over the world – doesn't give to the market – clients and investors – the trust of stability that a company which operates and is listed longer than 10 years.

Robberies

Prosegur Cash that offers the transportation service of high value goods, and it is exposed to the danger of being robbed – as already happen in the recent past.

The company assures always the protection of the customer by having insurances capable of covering damages in case of a robbery, even though that sometimes there are some items that have more than just the monetary value to the customers. It is very important that the company's name is well quoted on the market since trust is a key player on this market to maintain and gather new clients. An incident of this matter will expose the company to the market.

Cyber Risks

CASH isn't only exposed to the loss of high valuable goods. To plan and execute the transportation of the goods and all the logistics that are involved on this, it's necessary to have *data* of the places, the routes that are followed, the names of the clients, the content that a certain truck have, among other aspects, everything is stored on the company's database. In the World that we live on, the threats of being hacked increase day by day.

6. Valuation

Prosegur Cash is evaluated through two methods, by **Discounted Cash Flow Method** – as an absolute method – and by the **Multiple Approach** – as a relative valuation model.

Considering all the methods that exist to evaluate a company we choose these two (DCF and Multiples method), because we think that evaluate the company when the major consideration is the present value of future dividends (Dividend Discount Model) will not be so accurate for a company that has less than 5 years of existence; We also thought that CASH didn't fit on an evaluation method where the cost of equity and the cost of debt is done separately (Adjusted Present Value method); we also think that using a method that is based on the measure of how much cash a firm can return to its shareholders (Free Cash Flow to Equity Model) shouldn't be the proper way of evaluate CASH.

Discount Cash Flow Method (DCF)

Based on this model, our recommendation is to Buy, since we reached a price target of 2.14€ for the end of 2019 with an upside potential of 10.4%.

To give a better context, first we calculated the Free Cash Flow to the Firm (FCFF), that measures the company's profit after considering all the costs and incomes. To calculate this, it was taken into consideration the below formula:

$FCFF = EBIT (1 - t) + \text{Depreciations and Amortizations} - \text{Changes in NWC} - \text{Capex}$.

	2018	2019F	2020F	2021F	2022F	2023F
Revenues	1,731.61	1,745.35	1,759.20	1,773.16	1,787.24	1,801.42
Operating Expenses	- 332.38	- 345.85	- 359.87	- 374.48	- 389.70	- 405.54
EBIT	268.01	244.69	220.56	195.55	169.58	142.61
EBIT(1-Tc)	201.01	183.52	165.42	146.66	127.19	106.96
Depreciation	72.32	78.17	84.51	91.36	98.76	106.76
NWC	166.60	144.03	37.08	- 6.58	- 40.04	- 59.76
Change NWC		- 22.57	- 106.95	- 43.66	- 33.46	- 19.71
Capex	76.63	76.04	82.33	89.12	96.48	104.43
FCFF		360.30	439.21	370.80	355.88	337.86
Year		0	1	2	3	4
Discounted FCFF		360.30	310.88	185.78	126.21	84.81
Cumulative FCFF		360.30	671.19	856.97	983.18	1,067.99
Terminal Value		941.47	821.70	483.61	328.57	218.16

Figure 11 - DCF calculations

Source: Personal Analysis

To reach any of the above conclusions, we had to consider factors like discount rate, the risk of industry, the market risk premium, and also the country where the company is settled.

Using the DCF method to evaluate CASH, we had to estimate all the components in FCFF. One of the most important steps to take was the calculation of WACC (Weighted Average Cost of Capital - Table 5 - WACC Assumptions) which will translate the rate of return of Prosegur Cash. To do

Table 4 - Enterprise Value Estimation

Enterprise Value - EV	
Terminal Value	€ 218.16
PV of the Terminal Value	€ 941.47
NPV of FCFF	1,067.99 €
EV	€ 2,009.46
Net Debt	1,194.52 €
Equity Value	3,203.98 €
# Shares Outstanding	1,500.00
Equity Value per Share	2.14 €
Target Price at the end of 2020	2.14 €
Price at 31 December 2018	1.934
Upside potential	10.4%

Table 5 - WACC Assumptions

Assumptions	Value
Risk Free Rate (Rf)	-0.39%
Market Risk Premium (MRP)	8.18%
Beta Unlevered	1.04
Country Risk Premium (CRP) - Spain	2.22%
Beta Levered	6.59
Cost of debt	5.11%
Terminal growth rate	2.40%
Corporate Marginal Tax Rate	25.00%

that estimation, we have considered a time interval of five years – from 2018 to 2023.

$$WACC = \frac{E}{E + D} \times Ke + \frac{D}{E + D} \times Kd (1 - Tc)$$

Where,

D=Net Debt

Tc=Marginal Tax Rate

Ke=Cost of Equity

Kd=Cost of Debt

E=Equity

The Cost of Debt (Kd) will give the expected rate of return for the debt, in other words, gives the rate that a company will pay for their debt. We have assumed the Cost of Debt provided by *Damodaran official provider* for cost of transportation - this was the one that more related to the business area of Prosegur Cash.

To calculate the Cost of Equity (Ke), it was considered the **CAPITAL ASSET PRICING MODEL (CAPM)**. The Cost of Equity represents the capital return required to a certain investment – it gives context to the company between the risks and the expected return.

The Risk-Free Rate (Rf), refers to the 10-year German Treasury Bond (Bund), which is the best proxy to use to evaluate European companies.

Marginal Tax Rate (Tc) used was the one that is implicit in Spain, 25%.

Terminal Value (TV) was assumed after taking into consideration the value from capex, a perpetual growth rate (g) of 2.40%, based on average of all GDP growth rates from countries where the company has business.

Components like, Unlevered Beta (Bu), Country Risk Premium (CRP), and Market Risk Premium (MRP) were taken from the Damodaran's data base for the transportation industry – since there wasn't any related to transportation of valuable goods, this was the one the suited better. For these three components, the values considered were 1.04, 2.22% and 8.18% respectively.

Taking into consideration all the components, we could calculate Beta Levered, with a value of 6.59.

Multiples Approach

The Multiples Approach is a relative valuation, in other words, this method considers that comparing the company operating margins with the same margins of the industry peers will give a better understand to the investors on how the company is positioned against the competitors. This method is used as a complement for the Discounted Cash Flow valuation method.

To consider that with took in consideration the conversion rate of 0.9 for USD/EUR; 1.1 for GBP/EUR and 0.093 DKK/EUR.

As already presented, the companies chosen as peers were Brink's Company, G4S and Loomis.

Table 6 - Multiples Summary

Multiples Resume	2019F
EV/EBITDA	8.10
P/E	-0.80
P/CF	1.34
Average Price Target	€ 2.88

To use this approach, I used the following ratios: P/BV, P/CF, P/E and EV/EBITDA. In all ratio's calculations, it was considered the last two years for Prosegur Cash as well as for the peers.

P/BV is calculated by the below formula:

$$P/BV = \frac{\text{Share Price}}{\text{Book Value per Share}}$$

The price to book value is used for valuing stocks and helps to understand if the assets are overvalued and how the company is earning return on its assets.

P/CF is computed by the formula:

$$P/CF = \frac{\text{Price}}{\text{Cashflow}}$$

For the calculation of this ratio, it was taken into consideration the last two years of Prosegur Cash, as well as for the peers. It was obtained the price target of 1.34€ representing a potential downside of 30.7% from its latest closing price.

P/E ratio was calculated by the formula:

$$P/E = \frac{\text{Price}}{\text{Enterprise Value}}$$

We obtained a price target of 2.36€. On this calculation, we didn't take into consideration the Brink's company since the company had a negative result on 2018, that would drastically had influenced on this ratio if was taken into account – we have only considered CASH, Loomis and G4S.

EV/EBITDA ratio was calculated by the formula:

$$EV/EBITDA = \frac{\text{Enterprise Value}}{\text{EBITDA}}$$

We reached a price target for Prosegur Cash of 1.79€, representing a downside potential of 7.2%.

Forecast Analysis

Income Statement

REVENUES are expected to grow approximately 0.8% per year, taking into to consideration the historical average growth for the past years, and considering the fact that the company has settled the objectives of consolidating their market position – one of the three objectives for the triennial strategic plan – and also the fact the CASH has expanded their position. Prosegur Cash expects to reach €1801m by 2023F.

COSTS are expected to increase 4.1% to €345.9m in 2019F due to the expansion of the of the business – CASH has entered in Philippines and Central America markets which will result in an increase of their expenses.

The main cost for CASH operations are related to the staff costs – and also the costs related with management of support services and trademark (accountable as Other Expenses). The costs are expected to reach the amount of €405m by 2023F – the continuous expansion to new markets and the consolidation of the existent markets, will require more vehicles and

Table 8 - P/CF Estimation

P/CF	
Prosegur Cash Operating Cash Flow	€ 219.08
Shares Outstanding	1500
Average peer P/CF	9.18
Price Target	€ 1.34
Price at 31 December 2018	€ 1.93

Table 9 - EV/EBITDA Estimation

EV/EBITDA	
Prosegur Cash EBITDA 2019	€ 1,477.68
Prosegur Cash Net Debt	€ 1,183.28
Shares Outstanding	1500
Average peer EV/EBITDA	€ 9.14
Price Target	€ 1.79
Price at 31 December 2018	€ 1.93
Downside Potential	-7.2%

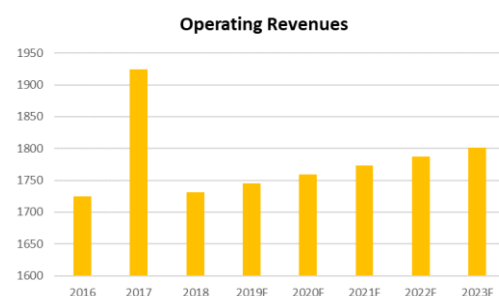


Figure 12 - Operating Revenues €m



Figure 13 - Operating Expenses €m

more people to assure the safe transportation of the valuable goods. We assumed a continuous growth rate in all costs associated, for the following years, taking into consideration the historical average growth rate.

FINANCIAL EXPENSES are expected to decrease by 3.5% over the years and the **FINANCE INCOME** is expected to increase 2.8%.

ORDINARY SHARES we assumed that will be stable during the whole analysis interval.

TAX ON PROFIT based on historical data, we assumed an average tax weight on income of 25%.

Balance Sheet

PPE this rubric was calculated according to the below formula:

$$PPE_n = PPE_{n-1} \times (1 + Capex\ Growth\ Rate) - Depreciation\ estimate_n$$

With the proposed expansion that Prosegur Cash has defined for the next years, it is crucial, besides hiring more human capital to acquire more armored trucks and have more strategic safe places to stores the cash and valuable goods.

INVENTORIES we assumed a growth rate of 2% since that wasn't possible to have a proper analysis on the historical growth rate due to the lack of data – CASH is a recent company, with only three years of reported data. The disparity between three years on this rubric, leads to a misleading understanding of what could be an average growth rate.

Cash Flow Statement

DEPRECIATIONS were expected to grow at a pace of 8%, taking into consideration that the increase of acquisitions of transport vehicles – armored trucks – and equipment.

CAPITAL EXPENDITURES taking into consideration the continuous expansion and consolidation of the current markets, that will lead to an investment of the fleets and equipment's and taking into consideration the analysis on the historical growth rate of the PP&E and Depreciation, this will result on growth YoY of 28%.

7. Financial Analysis

In 2019FY, CASH has reported 9.3% decrease in their profit after tax to an amount of €158m as the operating costs increased by 4% from €332m to €345m.

Profitability

NET PROFIT MARGIN reduced by 1% due to a decrease in profit after taxation by 9.3% despite the increase in revenues by 0.8% - from €1731m to €1745m. The main cause that justifies this increase in operating costs was the reinforcement needed to reinforce the operation on the field – the triennial strategic plan has the mission to assure customer success – and with that, comes the need to respond to customers latest needs.

OPERATING EXPENSES are expected to grow 4,1%, to €345.9m especially due to the costs due to the increase of sales and administrative expenses.

EBITDA MARGIN is expected to increase YoY due to the increase in operating revenues that are estimated to grow. The forecast is a growing margin of 0.4% on average.

EBIT MARGIN it is estimated that will slightly increase – 0.02% - over the years, mostly justified by the increase of operating expenses.

ROA will decrease principally due to the simultaneous contraction on net income and in total assets. The main reasons for ROA decrease over the years is the continuous decreasing in net income and in contrary, the increase of total assets. These two factors are responsible for this performance. The major responsible for these differences is the loss of value in current assets especially due to the decrease in Trades and Other Receivables.

Liquidity

CASH RATIO will get smaller year after year due to the significant loss of value on Trades and Other Receivables – that represented a decrease of 12%.

Solvency

EQUITY MULTIPLIER increased 0.13 due to the both contraction in the amount of equity as well as the on the value of total assets – despite of the factor that either equity, either assets lost value over the years, the ratio increased due to the not constant contraction between these two factors that are accountable for the calculation of the equity multiplier ratio. Equity lost value especially due to the downsize of the Retained Earnings and Other Reserves – lost €92m. The value of 8.11 represents that CASH is detained - financed or owned - majorly by shareholders.

8. Investment Risks

Compliance Risks

REGULATORY RISKS (RG):

Prosegur Cash is regulated by both Spain regulation and for those applied in the countries where the company has businesses – it is necessary to work in this industry, to have required authorizations, especial in what concerns arms control, and regulations on anti-money laundering. Changes on legal subject, corruption among other aspects, are potential facts that could expose the company to risk (see Figure 14).

Operational Risks

RISKS DUE TO INCIDENTS (RI):

Assets under custody are responsibility of Prosegur, if it happens any kind of loss of value, it is the responsibility of the insurance to cover. If suddenly there is an increase of complains, and with that occurs an increase of ask for refunds – this can be a risk of increasing insurance prices that could affect the company's profit.

BUSINESS RISKS (BR):

CASH works in markets like the European and the Latin America, that could have a decrease in demand due to unfavorable economic climate. The company could be exposed to prolonged reduction of cash use – that will affect the business volume. The company works in a highly competitive market, with pricing pressure. Even though CASH doesn't compete in terms of prices, it may be affected by the competitors in what this concern.

OPERATIONAL AND TECHNOLOGICAL RISKS (OT):

Prosegur Cash activity is very dependent on the digital and communications infrastructure, a failure of this, could involve a considerable amount of costs to fix it. The company works every day with sensitive and confidential information, and considering the danger of exposing any kind of information could lead to tons of claims and court lawsuits. The possibility of a security breach leaves the company very vulnerable, and because of that, there is a continuous investment on own security.

Strategic Risks

REPUTATIONAL (RP):

Reputation is a fundamental key on this industry. The company can be very affected if there are real perceived incidents that affected the company's reputation. Negative events will affect the ability to CASH operate in the proper way, according to their mission and values.

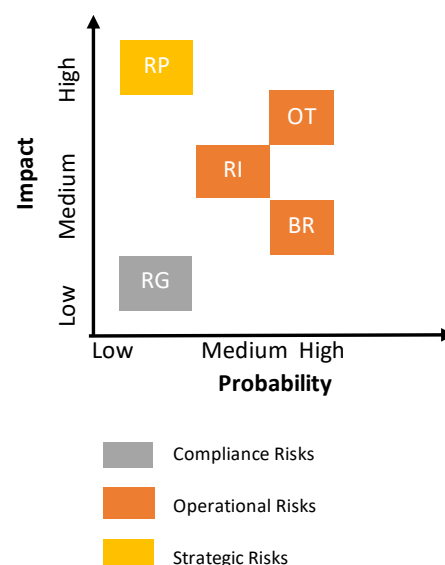


Figure 14 - Risk Matrix
Source: Personal Analysis

Price Target

Through the Sensitivity Analysis we can measure the impact of the major risks on the price target. This study is mainly focused on variables like WACC, Market Risk Premium, Beta and Terminal Growth. Below (Figure 16) we can analyze the impact of the variable changes on the price target.

Sensitivity Analysis Resume			
Variable	Low Estimate	Base Case	High Estimate
WACC	31.67%	40.67%	49.67%
DCF fair price	2.33	2.14	2.02
Recommendation	Buy	Hold	Sell
Terminal Growth Rate	1.80%	2.40%	2.90%
DCF fair price	2.13	2.14	2.14
Recommendation	Reduce	Hold	Hold
Beta	5.99	6.59	7.19
DCF fair price	2.22	2.14	2.06
Recommendation	Buy	Hold	Sell
Market Risk Premium	7.58%	8.18%	8.78%
DCF fair price	2.21	2.14	2.07
Recommendation	Buy	Hold	Sell

Figure 16 - Sensitivity Analysis

Source: Personal Analysis

Appendices

Appendix 1: Statement of Financial Position

In millions of euros	2016	2017	2018	2019F	2020F	2021F	2022F	2023F								
Assets																
Property, plant and equipment	266,4	279,3	333,5	349,69	364,19	375,94	383,61	385,45								
Goodwill	317,4	318,7	356,1	361,68	387,30	374,83	380,66	386,58								
Other intangible assets	173,9	159,2	178,5	181,86	185,23	188,67	192,18	195,74								
Investments accounted for using the equity method	29,0	29,3	26,4	25,30	24,21	23,17	22,17	21,22								
Non-current financial assets	2,1	5,7	6,5	6,56	6,61	6,66	6,71	6,76								
Deferred tax assets	44,9	37,3	36,2	32,64	29,41	26,50	23,87	21,51								
Non-Current Assets	833,5	829,5	937,3	957,73	996,95	995,77	1 009,20	1 017,27								
Non-Current assets held for sale	266,6	45,9	0,6	0,06	0,01	0,00	0,00	0,00								
Inventory	7,5	6,1	19,8	20,19	20,59	21,01	21,43	21,86								
Trade and other receivables	426,8	383,6	334,1	295,62	261,59	181,11	143,70	92,90								
Accounts Receivable with Prosegur Group	65,4	18,1	54,0	35,09	25,79	26,30	26,83	27,37								
Current tax asset	102,4	106,0	86,7	80,31	74,42	68,97	63,91	59,22								
Cash and Cash equivalents	188,8	317,8	273,8	279,23	151,36	154,38	137,74	140,50								
Current Assets	1 057,4	877,5	769,0	710,50	533,76	451,77	393,61	341,84								
Total Assets	1 890,8	1 707,0	1 706,3	1 668,23	1 530,71	1 447,54	1 402,81	1 359,10								
Equity																
Share capital	30,0	30,0	30,0	30,00	30,00	30,00	30,00	30,00								
Own Shares	-	-	2,1	-	1,86	-	1,70	-	1,56							
Translation differences	-	385,1	-	501,7	-	156,5	-	102,70	-	67,37	-	44,20	-	29,00	-	19,02
Retained earnings and other reserves	540,5	737,6	366,5	274,28	205,28	153,64	114,99	86,06								
Equity Attributable to equity holders of the parent	185,5	263,8	238,0	199,72	166,13	137,74	114,37	95,48								
Non-Controlling Interests	0,0	0,0	0,0	6,00	6,00	6,00	6,00	6,00								
Total equity	185,5	263,8	238,0	205,72	172,13	143,74	120,37	101,48								
Liabilities																
Financial Liabilities	634,7	696,9	688,0	719,99	683,70	665,00	665,98	670,75								
Deferred Tax Liabilities	22,6	26,5	41,2	39,12	41,07	43,12	45,28	47,54								
Provisions	137,0	127,3	136,7	136,92	137,12	137,33	137,53	137,73								
Non-Current Liabilities	794,3	850,7	865,9	896,03	861,90	845,45	848,79	856,03								
Trade and other payables	334,8	314,4	314,0	304,19	275,84	257,25	249,24	231,48								
Current tax liabilities	118,5	105,0	64,7	48,63	36,53	27,44	20,62	15,49								
Financial Liabilities	87,3	77,5	132,0	125,39	99,12	94,17	89,46	84,99								
Accounts Payable with Prosegur Group	168,7	48,4	80,8	76,75	72,91	69,26	65,80	62,51								
Provisions	3,1	5,6	2,3	2,06	1,87	1,69	1,53	1,39								
Liabilities directly associated with non-current assets held for sale	184,7	26,8	-	-	-	-	-	-								
Other Current Liabilities	13,9	14,6	8,6	9,46	10,40	8,54	7,01	5,75								
Current Liabilities	911,0	592,3	602,4	566,48	496,68	458,35	433,65	401,59								
Total Liabilities	1 705,4	1 443,0	1 468,3	1 462,51	1 358,57	1 303,80	1 282,44	1 257,62								
Total Equity and Liabilities	1 890,8	1 706,8	1 706,3	1 668,23	1 530,70	1 447,54	1 402,81	1 359,10								

Source: Company data and team estimates

Appendix 2: Income Statement

In millions of euros	2016	2017	2018	2019F	2020F	2021F	2022F	2023F
Revenues	1 724,3	1 924,3	1 731,6	1 745,35	1 759,20	1 773,16	1 787,24	1 801,42
Cost of Sales	- 1 097,3	- 1 230,7	- 1 131,7	- 1 154,98	- 1 178,73	- 1 202,96	- 1 227,69	- 1 252,93
Gross Profit	626,9	693,5	599,89	590,37	580,48	570,21	559,55	548,49
Other income	71,4	88,1	0,8	0,51	0,32	0,20	0,12	0,08
Sale and administrative expenses	- 305,8	- 331,0	- 330,8	- 344,36	- 358,47	- 373,16	- 388,46	- 404,38
Other Expenses	- 2,7	- 4,1	- 1,6	- 1,49	- 1,40	- 1,32	- 1,24	- 1,16
Share of profits	- 4,5	- 1,4	- 0,3	- 0,34	- 0,36	- 0,38	- 0,39	- 0,41
Operating Profit/Loss (EBIT)	385,4	445,1	268,01	244,7	220,6	195,5	169,6	142,6
Finance Income	31,1	32,5	32,9	33,78	34,72	35,68	36,68	37,70
Finance Expenses	- 40,3	- 33,2	- 36,8	- 35,48	- 34,25	- 33,05	- 31,90	- 30,79
Net Financial Income/(Costs)	- 9,2	- 0,7	3,90	- 1,7	0,5	2,6	4,8	6,9
Profit Before Tax	376,2	444,3	264,11	243,0	221,0	198,2	174,4	149,5
Income Tax	- 149,9	- 140,0	- 89,9	- 85,05	- 77,36	- 69,36	- 61,02	- 52,33
Post-Tax profit from continuing operations	226,2	304,4	174,23	157,94	143,67	128,81	113,33	97,18
Earnings after tax from discounted operations	- 47,3	- 0,5	- 0,0	- 15,60	- 15,60	- 15,60	- 15,60	- 15,60
Consolidated profit for the year	179,0	304,9	174,22	142,3	128,1	113,2	97,7	81,6
Interest Paid	- 16,0	- 27,5	- 11,8	- 21,2	- 38,2	- 68,8	- 123,8	- 222,9

Appendix 3: Cash Flow Statement

In millions of euros	2016	2017	2018	2019F	2020F	2021F	2022F	2022F
Cash-Flows from Operating Activities								
Profit/Loss for the year	226,242.0	304,850.0	174,217.0					
Adjustments for:								
Depreciations and amortizations	61.9	67.9	72.3	78.2	84.5	91.4	98.8	106.8
Impairment losses on non-current assets	0.0	0.1	-	-	-	-	-	-
Impairment losses on trade receivables and stock	1.5	1.6	1.2	1.3	1.2	1.1	1.1	1.0
Change in provisions	78.1	39.5	19.0	20.5	10.1	5.0	2.5	1.2
Finance Income	- 33.4	- 60.2	- 32.8	- 35.5	- 41.6	- 48.8	- 57.2	- 67.1
Finance expenses	75.7	42.6	82.0	88.7	110.3	137.2	170.7	212.3
Share of profits/losses of financial year accounted for under the equity method	4.2	- 1.4	0.3	0.4	- 0.1	0.0	- 0.0	0.0
(Profit)/Loss from the sale of fixed assets and real estate investments	- 45.6	1.4	0.7	0.8	0.2	0.0	0.0	0.0
(Profit)/Loss from the sales of shares and intangible assets	-	85.9	-	-	-	-	-	-
(Profit)/Loss from the sales of subsidiaries	0.3	-	-	-	-	-	-	-
Income Tax	132.1	130.8	89.9	97.2	66.8	45.9	31.5	21.7
	-	-	-					
Cash Flows from Investing Activities								
Proceeds on sales of non-current assets helds	100.9	73.6	18.3	8.97	4.39	2.15	1.05	0.51
Collections from financial assets	22.3	6.8	-	-	-	-	-	-
Collections from the sale of intangible assets	-	36.0	-	-	-	-	-	-
Collections from shares	72.8	49.9	-	-	-	-	-	-
Interest collection	31.1	1.6	4.6	6.86	10.23	15.25	22.73	33.88
Collections from investments	37.0	-	-	-	-	-	-	-
Dividends received	- 29.5	- 47.6	- 45.9	-	-	-	-	-
Acquisition of subsidiaries, net of cash and cash equivalents	- 89.4	- 97.4	- 93.1	- 59.05	- 42.06	- 29.95	- 21.33	- 15.19
Acquisition of property, plant and equipment	- 7.0	- 7.0	- 9.5	- 95.26	- 97.45	- 99.68	- 101.97	- 104.30
Acquisition of intangible assets	- 10.7	-	-	-	-	-	-	-
Payments for the acquisition of subsidiaries	- 70.9	-	-	-	-	-	-	-
Payments for the acquisition of financial assets (includes Group companies)	27.0	- 31.8	- 171.4	-	-	-	-	-
Net cash from investing activities	83.6	- 16.1	- 297.0					
Cash flows from financing activities								
Payments from the issuance of own shares and own equity instruments	0.0	2.1	0.2	0.18	0.18	0.19	0.19	0.19
Collections from contributions	3.3	-	-	-	-	-	-	-
Financing received	715.1	26.4	64.9	81.15	101.40	126.71	158.33	197.85
Collections from obligations and other tradable securities	-	594.1	-	-	-	-	-	-
Payments from the reduction of capital from subsidiaries	- 46.8	-	-	-	-	-	-	-
Payments from debts	- 22.2	- 543.8	- 52.1	- 641.86	- 673.96	- 707.66	- 743.04	- 780.19
Distribution of issuance premium	-	- 112.4	- 15.5	- 16.28	- 17.10	- 17.95	- 18.85	- 19.79
Payments from debts with group companies	- 910.5	-	-	-	-	-	-	-
Payments from other debts	-	-	- 15.5	-	-	-	-	-
Dividends paid	- 74.6	- 43.0	- 94.6	- 99.28	- 104.24	- 109.46	- 114.93	- 120.67
Net cash from financing activities	-	80.8	- 97,039.0					
Net increase / (decrease) of cash and other liquid resources	- 20.2	117.5	3.1	123.40	129.57	136.05	142.85	150.00
Cash and cash equivalents at the beginning of period	241.4	211.6	317.9	251.67	299.32	356.00	423.41	503.59
Effect of exchange differences	- 9.7	- 11.3	- 47.0	- 30.04	- 80.17	- 213.98	- 571.11	- 1,524.32
Cash and cash equivalents at the end of the period	211.6	317.9	274.0	323.93	382.93	452.68	535.13	632.60

Appendix 4: Key Financial Ratios

	2017	2018	2019F	2020F	2021F	2022F
Liquidity Ratios						
Current Ratios	1.48	1.28	1.25	1.07	0.99	0.91
Quick Ratio	1.21	1.10	1.08	0.88	0.79	0.71
Cash Ratio	1.18	1.01	1.01	0.83	0.73	0.65
Profitability Ratios						
Net Profit Margin	15.82%	10.06%	9.05%	8.17%	7.26%	6.34%
ROE	86.67%	136.60%	130.25%	119.81%	111.59%	106.21%
ROA	17.83%	10.21%	9.47%	9.39%	8.90%	8.08%
EPS	0.20	0.12	0.11	0.10	0.09	0.08
Solvency Ratios						
D/E Ratio	5.47	6.17	7.11	7.89	9.07	10.65
Equity Multiplier	6.47	7.17	8.11	8.89	10.07	11.65
Interest Coverage Ratio	57.80	118.61	65.91	36.61	20.33	11.29
Long-term Debt Ratio	0.47	0.50	0.52	0.59	0.60	0.60

Label:

Equity Multiplier = total assets / total equity

Interest Coverage Ratio = EBIT / tax expense on profit on ordinary activities

Long term Debt Ratio = long term debt / total assets

D/E Ratio = total liabilities / total equity

Current Ratios = total current assets / total current liabilities

Quick Ratios = (cash and equivalents + trade receivables + financial assets) / total current liabilities

Cash Ratio = (cash and equivalents + financial assets) / total current liabilities

Net Profit Margin = net income / total revenues

ROE = net income / total equity

ROA = net income / total assets

EPS = net income / average of number of ordinary shares

Appendix 5: Forecasting Assumptions

	2016	2017	2018	2017	2018	Average	2019F	2020F	2021F	2022F	2023F
Operating Revenues											
Revenues	1,724.3	1,924.3	1,731.6	11.6%	-10.0%	0.8%	1,745.35	1,759.20	1,773.16	1,787.24	1,801.42
Cost of Sales	- 1,097.3	- 1,230.7	- 1,131.7	12.2%	-8.0%	2.1%	- 1,154.98	- 1,178.73	- 1,202.96	- 1,227.69	- 1,252.93
Gross Profit	626.9	693.5	599.9	10.6%	-13.5%	-1.4%	590.4	580.5	570.2	559.5	548.5
Other income	71.4	88.1	0.8	23.3%	-99.1%	-37.9%	0.51	0.32	0.20	0.12	0.08
Sale and administrative expenses	- 305.8	- 331.0	- 330.8	8.3%	-0.1%	4.1%	- 344.36	- 358.47	- 373.16	- 388.46	- 404.38
Other Expenses	- 2.7	- 4.1	- 1.6	49.3%	-61.1%	-5.9%	- 1.49	- 1.40	- 1.32	- 1.24	- 1.16
Share of profits	- 4.5	- 1.4	- 0.3	-68.1%	-77.6%	-72.8%	- 0.34	- 0.36	- 0.38	- 0.39	- 0.41
Operating Profit/Loss (EBIT)	385.4	445.1	268.0	15.5%	-39.8%	-12.1%	244.7	220.6	195.5	169.6	142.6
Finance Income	31.1	32.5	32.9	4.5%	1.1%	2.8%	33.78	34.72	35.68	36.68	37.70
Finance Expenses	- 40.3	- 33.2	- 36.8	-17.5%	10.6%	-3.5%	- 35.48	- 34.25	- 33.05	- 31.90	- 30.79
Net Financial Income/(Costs)	- 9.2	- 0.7	- 3.9				- 1.7	0.5	2.6	4.8	6.9
Profit Before Tax	376.2	444.3	264.1	18.1%	-40.6%	-11.2%	242.99	221.03	198.17	174.35	149.51
Income Tax	- 149.9	- 140.0	- 89.9	-6.6%	-35.8%	-21.2%	- 85.05	- 77.36	- 69.36	- 61.02	- 52.33
Post-Tax profit from continuing operations	226.2	304.4	174.2	34.5%	-42.8%	-4.1%	157.9	143.7	128.8	113.3	97.2
Earnings after tax from discounted operations	- 47.3	0.5	0.0	-101.0%	-102.2%	-101.6%	- 15.60	- 15.60	- 15.60	- 15.60	- 15.60
Consolidated profit for the year	179.0	304.9	174.2	70.3%	-42.9%	13.7%	142.3	128.1	113.2	97.7	81.6
Interest paid	- 16.0	- 27.5	- 11.8	71.6%	-57.1%	80.0%	- 21.2	- 38.2	- 68.8	- 123.8	- 222.9
Attributable to Owners of the parent	178.3	304.9	174.2								
Non-Controlling Interests	0.6	0.0	-								
Cost of Sales and administrative expenses											
Supplies	43.4	45.8	49.2	5.5%	7.5%	6.5%	52.42	55.81	59.42	63.27	67.37
Employees benefits expenses	781.2	888.4	803.0	13.7%	-9.6%	2.1%	819.51	836.34	853.53	871.06	888.96
Operating leases	25.3	13.0	10.7	-48.8%	-17.8%	-33.3%	7.11	4.74	3.16	2.11	1.41
Supplies and external services	115.5	116.5	124.0	0.9%	6.4%	3.7%	128.53	133.23	138.11	143.16	148.40
Amortisations	30.6	36.6	40.0	19.7%	9.2%	14.4%	45.74	52.35	59.91	68.57	78.47
Other Expenses	101.3	130.5	104.9	28.8%	-19.6%	4.6%	109.65	114.66	119.90	125.37	131.10
Total Cost of Sales	1,097.3	1,230.7	1,131.7				1,162.95	1,197.14	1,234.03	1,273.55	1,315.71
Supplies	1.9	1.2	0.9	-36.1%	-24.8%	-30.5%	0.65	0.45	0.31	0.22	0.15
Employees benefits expenses	109.2	87.4	86.1	-20.0%	-1.5%	-10.7%	76.92	68.68	61.33	54.76	48.90
Operating leases	28.6	33.3	35.3	16.1%	6.1%	11.1%	39.19	43.53	48.36	53.72	59.67
Supplies and external services	53.3	53.7	57.9	0.7%	7.8%	4.3%	60.34	62.92	65.60	68.40	71.32
Amortisations	31.3	31.3	32.3	-0.1%	3.4%	1.6%	32.88	33.42	33.98	34.54	35.10
Other Expenses	81.3	124.1	118.2	52.6%	-4.8%	23.9%	146.51	181.57	225.02	278.87	345.60
Total Sale and administrative expenses	305.8	331.0	330.8				356.50	390.58	434.60	490.50	560.74

Appendix 6: DCF Assumptions

Assumptions	Value	Description
Risk Free Rate (Rf)	-0.39%	Germany Bond 10Y Yield / 3 Julho 2019 Bloomberg
Market Risk Premium (MRP)	8.18%	Total Equity Risk Premium - Damodaran
Beta Unlevered	1.04	Damodaran, 28 Aug 2019
Country Risk Premium (CRP) - Spain	2.22%	
Beta Levered	6.59	Calculado com base no beta unlevered $Bl = Bu * (1 + (1tc) * (D/E))$
Cost of debt	5.11%	Cost of Debt Transportation - Damodaran
Terminal growth rate	2.40%	Forescasting - taking into consideration all GDP growth rates from all countries where Prosegur Cash has business
Corporate Marginal Tax Rate	25.00%	Damodaran, 3 Julho 2019

Appendix 7: Discounted Cash Flow Analysis

7.1 WACC

Weighted Average Cost of Capital - WACC					
	2019F	2020F	2021F	2022F	2023F
Cost of equity					
Rf	-0,39%	-0,39%	-0,39%	-0,39%	-0,39%
CRP	2,22%	2,22%	2,22%	2,22%	2,22%
MRP	8,18%	8,18%	8,18%	8,18%	8,18%
Beta levered	3,31	3,31	3,31	3,31	3,31
Cost of equity	28,88%	28,88%	28,88%	28,88%	28,88%
Cost of debt					
Cost of debt (Rd)	5,11%	5,11%	5,11%	5,11%	5,11%
Marginal tax rate	25,00%	25,00%	25,00%	25,00%	25,00%
After tax cost of debt	3,83%	3,83%	3,83%	3,83%	3,83%
Weight of equity (We)	0,71		0,71		0,72
Weight of debt (Wd)	0,29		0,29		0,28
WACC	21,62%	21,52%	21,77%	21,79%	21,91%

7.2 FCFF

In millions of euros

	2018	2019F	2020F	2021F	2022F	2023F
Revenues	1 731,61		1 745,35	1 759,20	1 773,16	1 801,42
Operating Expenses	- 332,38		345,85	359,87	374,48	405,54
EBIT	268,01		244,69	220,56	195,55	142,61
EBIT(1-Tc)	201,01		183,52	165,42	146,66	106,96
Depreciation	72,32		78,17	84,51	91,36	106,76
NWC	166,60		144,03	37,08	6,58	59,76
Change NWC	-		22,57	106,95	43,66	19,71
Capex	76,63		76,04	82,33	89,12	104,43
FCFF			360,30	439,21	370,80	337,86
Year			0	1	2	3
Discounted FCFF			360,30	360,26	249,48	152,94
Cumulative FCFF			360,30	720,56	970,04	1 319,38
Terminal Value			1 864,79	1 880,73	1 284,37	1 010,71

7.3 Price Target

Enterprise Value - EV	
Terminal Value	€ 218.16
PV of the Terminal Value	€ 941.47
NPV of FCFF	1,067.99 €
EV	€ 2,009.46
Net Debt	1,194.52 €
Equity Value	3,203.98 €
# Shares Outstanding	1,500.00
Equity Value per Share	2.14 €
Target Price at the end of 2020	2.14 €
Price at 31 December 2018	1.934
Upside potential	10.4%

Appendix 8: Relative Valuation

8.1 Multiples Valuation Resume

Multiples Resume	2020F
EV/EBITDA	8.10
P/E	2.36
P/CF	1.34
Average Price Target	€ 3.93

8.2 EV/EBITDA Ratio

EV/EBITDA	
Prosegur Cash EBITDA 2019	€ 1,477.68
Average peer EV/EBITDA	9.02
Prosegur Cash Enterprise Value peer estimate	€ 13,329.54
Net Debt	€ 1,183.28
Prosegur Cash Equity Value by peer estimate	€ 12,146.27
Shares Outstanding	1500
Price Target	€ 8.10
Price at 31 December 2018	€ 1.93

8.3 P/E Ratio

P/E	
Prosegur Cash EPS	0.11
Average peer P/E	22.41
Price Target	€ 2.36
Price at 31 Decembe	€ 1.93

8.4 P/CF Ratio

P/CF	
Prosegur Cash Operating Cash Flow	€ 219.08
Shares Outstanding	1500
Average peer P/CF	9.18
Price Target	€ 1.34
Price at 31 December 2018	€ 1.93

Appendix 9: Sensitivity Analysis

Recommendation	Low Risk	Medium Risk	High Risk
Buy	> 15%	> 20%	> 30%
Hold	>5% and < 15%	> 10% and < 20%	> 15% and <30%
Reduce	>-10% and < 5%	>-10% and <10%	>-10% and <15%
Sell	< -10%	< -10%	<-10%

Change in WACC (row) and Terminal Growth (column)							
	1.80%	2.00%	2.20%	2.40%	2.60%	2.80%	2.90%
31.67%	2.31	2.32	2.32	2.33	2.33	2.34	2.34
34.67%	2.24	2.24	2.25	2.25	2.26	2.26	2.26
37.67%	2.18	2.18	2.19	2.19	2.19	2.20	2.20
40.67%	2.13	2.13	2.13	2.14	2.14	2.14	2.14
43.67%	2.08	2.08	2.09	2.09	2.09	2.10	2.10
46.67%	2.04	2.05	2.05	2.05	2.05	2.06	2.06
49.67%	2.01	2.01	2.01	2.02	2.02	2.02	2.02

Change in WACC							
€ 2.14	31.67%	34.67%	37.67%	40.67%	43.67%	46.67%	49.67%
DCF fair price	2.33	2.25	2.19	2.14	2.09	2.05	2.02
Change to initial target	9%	5%	3%	0%	-2%	-4%	-5%
Recommendation	Buy	Buy	Buy	Hold	Reduce	Sell	Sell

Change in Terminal Growth Rate							
€ 2.14	1.80%	2.00%	2.20%	2.40%	2.60%	2.80%	2.90%
DCF fair price	2.13	2.13	2.13	2.14	2.14	2.14	2.14
Change to initial target	0%	0%	0%	0%	0%	0%	0%
Recommendation	Reduce	Reduce	Reduce	Hold	Hold	Buy	Buy

Change in Beta							
€ 2.14	5.99	6.19	6.39	6.59	6.79	6.99	7.19
DCF fair price	2.22	2.19	2.16	2.14	2.11	2.08	2.06
Change to initial target	4%	3%	1%	0%	-1%	-3%	-4%
Recommendation	Buy	Buy	Buy	Hold	Reduce	Reduce	Reduce

Change in Market Risk Premium							
€ 2.14	7.58%	7.78%	7.98%	8.18%	8.38%	8.58%	8.78%
DCF fair price	2.21	2.18	2.16	2.14	2.11	2.09	2.07
Change to initial target	3%	2%	1%	0%	-1%	-2%	-3%
Recommendation	Buy	Buy	Buy	Hold	Reduce	Reduce	Reduce

Sensitivity Analysis Resume			
Variable	Low Estimate	Base Case	High Estimate
WACC	31.67%	40.67%	49.67%
DCF fair price	2.33	2.14	2.02
Recommendation	Buy	Hold	Sell
Terminal Growth Rate	1.80%	2.40%	2.90%
DCF fair price	2.13	2.14	2.14
Recommendation	Reduce	Hold	Hold
Beta	5.99	6.59	7.19
DCF fair price	2.22	2.14	2.06
Recommendation	Buy	Hold	Sell
Market Risk Premium	7.58%	8.18%	8.78%
DCF fair price	2.21	2.14	2.07
Recommendation	Buy	Hold	Sell

Appendix 10: Corporate Governance

Board of Directors	
Name	Role
Mr. Christian Gut Revoredo	Chairman (Executive Director)
Mr. José António Lasanta Luri	CEO (Executive Director)
Mr. Pedro Guerrrero Guerrero	Member (Deputy Chairman and Proprietary Director appointed by Prosegur Compañía de Seguridad S.A)
Mr Claudio Aguirre Pemán	Member (External Independent Director)
Ms María Vaca	Member (External Independent Director)
Mr Daniel Domecq	Member (External Independent Director)
Ms Chantal Gut Revoredo	Member (Proprietary Director appointed by Prosegur Compañía de Seguridad, S.A.)
Mr Antonio Rubio Merino	Member (Proprietary Director appointed by Prosegur Compañía de Seguridad, S.A.)
Ms Ana Bemberg	Member (External Independent Director)
Ms Renata Mendaña Navarro	Non-board member secretary
Roldán García Pereda	Non-board member vicesecretary

Board of Committees	
Name	Role
Mr Daniel Domecq	Chairman (External Independent Director)
Mr Claudio Aguirre Pemán	Member (External Independent Director)
Mr María Vaca	Member (External Independent Director)
Ms Renata Mendaña Navarro	Non-board member secretary
Mr Roldán García Pereda	Non-board member vicesecretary

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Abbreviations

CapEx	Capital Expenditure
CDS	Country Default Swap
CFF	Cash Flow from Financing Activities
CFI	Cash Flow from Investing
CFO	Cash Flow from Operations
D&A	Depreciations & Amortizations
AOA...	Asia Oceania Association
GPB	Great British Pound
EUR	Euro Currency
DKK	Danish Krone
Kd	Cost of debt
Ke	Cost of Equity
P/E	Price-to-earnings ratio
MRP	Market Risk premium
NWC	Net Working Capital
P/CF	Price-to-Cash Flow ratio
CASH	Abbreviation for Prosegur Cash SA
g	Perpetual growth rate
DCF	Discounted Cash Flow
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciations and Amortizations
ECB	European Central Bank
EPS	Earnings per share
EV	Enterprise Value
FCFF	Free Cash Flow to the Firm
€bn	Billions of euros
€m	Millions of euros